LEGISLATIVE
AUDIT
COMMISSION

Review of
University of Illinois
Year Ended June 30, 2003

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REVIEW: 4203
UNIVERSITY OF ILLINOIS
YEAR ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 7

ACCEPTED - 7

REPEATED RECOMMENDATIONS - 1

PRIOR AUDIT FINDINGS/ RECOMMENDATIONS - 6

This review summarizes the audit of the University of Illinois for the year ended June 30, 2003, filed with the Legislative Audit Commission on March 18, 2004. The auditors conducted a financial and compliance audit in accordance with State law and the requirements of the federal Single Audit Act and OMB Circular 133. The auditors examined the financial statements in the Annual Financial Report; and the revenue bond financial statements of the Auxiliary Facilities System, the Willard Airport Facility, and the Health Services Facilities System and stated the financial statements were fairly presented.

The University of Illinois (University), a federal land grant institution, is a comprehensive university serving primarily the citizens of Illinois from three main campuses and various outreach activities. The governing body of the University is the Board of Trustees of the University of Illinois.

The Urbana-Champaign campus is responsible for pursuing instruction, including strong emphasis at the graduate level; research, through its eminent faculty; and public service as the original land grant campus of the University.

The Chicago campus is responsible for pursuing teaching, research and service activities related to basic and health sciences and providing a broad range of educational services at both the graduate and undergraduate levels. Vast educational offerings include professional degree programs in medicine, dentistry, pharmacy, nursing, associated health professions and public health as well as major research programs in a variety of curriculums.

The Springfield campus is responsible for addressing public affairs within the framework of a liberal arts curriculum through its first-hand access to State government and public service through special courses, projects and internship opportunities.

Dr. James J. Stukel is currently the President of the University, and served as Chancellor of the Chicago campus prior to being appointed President in August 1995. Dr. Stukel has announced his plans to retire as University President effective February 2005.

General Information

Following is a summary of the net assets of the University as of June 30:

	2003	2002
Assets		
Cash and Investments	$ 967,896,000	$ 909,877,000
Accounts and note receivable	330,124,000	297,922,000
Capital assets, net of depreciation	2,547,063,000	2,328,565,000
Other assets	79,654,000	100,788,000
Total Assets	**$ 3,924,737,000**	**$ 3,637,152,000**
Total Liabilities	**$ 1,780,868,000**	**$ 1,647,140,000**
Net Assets	**$ 2,143,869,000**	**$ 1,990,012,000**

Information on full-time equivalent (FTE) enrollment of 67,485 students, employment exceeding 28,000, and per capita costs is detailed in Appendix A. Full-time student enrollment increased about 2,000, and the number of full-time equivalent employees decreased by 76.

Expenditures From Appropriations

Appendix B summarizes the appropriations and expenditures for the period under review. In FY03, the University received State appropriations from eight funds: General Revenue Fund, Educational Assistance Fund, Tobacco Settlement Fund, Fire Prevention Fund, Presidential Library & Museum Operating Fund, State College and University Trust Fund, Capital Development Bond Fund, and the Build Illinois Bond Fund. Since 1996, Income Fund receipts previously retained with the State were transferred to the University. Deposits to the Income Fund for FY03 increased $56 million, totaling almost $327.5 million, a 20.6% increase over FY02.

During FY03 the University's total expenditures were $790,169,571 from appropriated funds. According to the audit report, 80.8% of FY03 expenditures were from the General Revenue Fund; 11.1% from the Educational Assistance Fund; 7.5% from the Capital Development Bond Fund; and about 0.6% from the other funds. FY03 expenditures from appropriated funds were almost $39.6 million less, or 4.8% less than FY02. Expenditures from GRF decreased by $72.7 million while appropriations from other funds increased or remained the same. $66.9 million of the decrease from the General Revenue Fund was in personal services and contractual services. The remaining decrease was in HECA grants and research facilities. In FY03, the University received an additional $4 million from the Educational Assistance Fund for personal services. $25.5 million more came from the Capital Development Bond Fund for the College of Medicine ($10.8 million), the Computer

Science engineering facility ($6.1 million), and Com Education/Research facility ($7.8 million).

Revenues, Expenses and Changes in Net Assets

The table appearing in Appendix C presents a summary of revenues, expenses and changes in net assets at June 30, 2003 and 2002. Operating revenues, or those that generally result from exchange transactions, were $2,122,686,000. State appropriations, gifts and investments are defined as nonoperating revenues, and totaled $1,026,872,000. The University's operating expenses were $3,110,304,000. The increase in net assets was $153,857,000.

The chart appearing below shows revenues by source for FY03:

Revenues	FY03
Nonoperating revenue	33%
Grants and contracts	24%
Student tuition and fees	12%
Hospital and other medical services	11%
Auxiliary enterprises	9%
Department activities	5%
Other operating revenues	6%

The following chart indicates expenses by type for FY03:

Expenses	FY03
Instruction	19%
Research	17%
Support services	14%
Hospital and medical activities	10%
Public service	10%
Auxiliary enterprises	6%
Plant operations	6%
Scholarships & fellowships	4%
Depreciation	5%
On behalf payments for fringe benefits	9%

Accounts Receivable

Appendix D provides a summary of the accounts receivable for FY03 and FY02. Total net accounts receivable increased to $271,606,375 as of June 30, 2003 from $240,857,697 as of June 30, 2002. The allowance for doubtful accounts (both unrestricted and restricted) increased, from $171,412,160 in FY02 to $183,586,306 in FY03. The vast majority of the allowance for doubtful accounts, $169 million, or 98.6%, was related to the operation of the hospitals and clinics. Net receivable for unrestricted accounts increased $17.7 million, and net receivable for restricted accounts increased $13 million. Notes receivable (student loans), which total almost $60.3 million, is not included in Appendix D.

Capital Assets

Appendix E is a summary of changes in capital assets. Capital assets at the beginning of FY03, valued at $2.3 billion increased to $2.5 billion at June 30, 2003. This figure was comprised of the following:

- $105.3 million in land;
- $2,024.6 million in buildings;
- $589.5 million in improvements;
- $1,264.8 million in equipment;
- $232.6 million in construction in progress; and
- less $1,669.7 million in accumulated depreciation.

At UIC major construction in progress consisted of $44.5 million for the Com Research facility and $21.9 million for student residence. At UIUC, major construction in progress consisted of $36.6 million for the Seibel Center for Computer Science, $9.3 million for a beef sheep facility, $8.1 million for a north campus parking deck, and $5.9 million for Enterprise Works @ ILL. Major construction in progress at UIS consisted of $6.8 million for townhouse residences. The Lincoln Residence Hall was completed at UIS.

Foundation Payments to the University

During FY03 and FY02, the University engaged the University of Illinois Foundation under contract to provide fund-raising and other services. In accordance with the contract agreement, in FY03 the University provided a total of $6,375,411 to the Foundation. This compares to a total of $6,512,337 provided to the Foundation by the University in FY02. As required by the contract, the Foundation provided the University certain funds considered unrestricted for purposes of the computations outlined in the University Guidelines in 1982.

The Foundation provided a total of $123,592,749 to the University in FY03, compared to $127,580,480 in FY02. Gifts received by the Foundation include some gifts attributable to solicitations by personnel of the University. Conversely, private gifts received by the University include some gifts attributable to solicitations of Foundation personnel. Appendix F provides a summary of all funds that the Foundation gave to the University during FY03 and FY02.

Tuition and Fee Waivers

Appendix G provides a summary of tuition and fee waivers by campus. During FY03, the University of Illinois granted tuition and fee waivers valued at $147,136,300 to 17,890 students. The value of tuition and fee waivers in FY02 was almost $122.6 million. Of the $147.1 million in tuition and fee waivers granted in FY03, $10.5 million was for mandated waivers and $136.6 million was for discretionary waivers. The majority of waivers, totaling $108.8 million in FY03, went for 9,894 various assistantships at the three campuses.

Summary of Health Care Delivery Services

Appendix H provides a summary of health care delivery services operations and a statement of revenues, expenses, and changes in net assets. The summary includes the University of Illinois Hospital and associated clinical facilities providing patient care at, but not limited to, the University of Illinois at Chicago Medical Center. In FY03, the System had operating revenues of almost $423.9 million and operating expenses of almost $416 million, and an operating income of $7.9 million.

Accountants' Findings and Recommendations

Condensed below are the seven findings and recommendations from the audit report. There was one repeated recommendation. The following recommendations are classified on the basis of information provided by Mike Bass, Assistant Vice-President for Business and Finance, in the audit report.

Accepted

1. **Review process and procedures for coding capital assets in the Property Accounting System and implement additional procedures to provide for a periodic reconciliation of amounts contained in the Property Accounting System to the amounts in the underlying records used to prepare the financial statements.**

Findings: During the current year audits, University management and the auditors noted problems in the reporting of capital assets to appropriate financial statement entities. The School of Public Health West building was originally recorded on the System's financial statements in 1998, but should not have been. Another building, the Magnetic Resonance Imaging Facility, was originally recorded on the System's financial statements but was mistakenly reclassified to the University's financial statements in 2000. The discovery of these errors resulted in a prior period adjustment to the System's financial statements totaling almost $11.3 million.

Accepted - continued

Additionally the financial statements for the Auxiliary Facilities System had to be adjusted for construction of the Lincoln Resident Hall in Springfield, in the amount of about $7 million. These same financial statements did not include approximately $4.8 million of capital assets and $3.8 million in accumulated depreciation.

University management stated that the above errors were due in part to system weaknesses in the general ledger, which does not support comprehensive balance sheets by bonded entity.

Response: Accepted. The University is reviewing its process and procedures to ensure the integrity for coding capital assets in the Property Accounting System. The University has implemented a new General Ledger and Fixed Asset System. As part of that implementation we will be initiating procedures to reconcile fixed asset records to the capital asset balances in the General Ledger.

2. Implement procedures to facilitate proper recording of receivables and ensure that the procedures are clearly understood by personnel responsible for the accounting procedures. (Repeated-2002)

Findings: During testing of accounts receivable, two instances were noted where the balances at June 30, 2003 were overstated in the financial statements. Accounts receivable for the College of Dentistry were overstated by almost $1.6 million due to a miscalculation by departmental accounting personnel. The error resulted in the accounts receivable and revenues being overstated in the financial statements.

Parking accounts receivable were initially overstated by $1,288,014. The error resulted from the University recording a receivable for all unpaid citations issued since July 1, 1998; however, an allowance was not made for the portion of these citations deemed to be uncollectible. Neither the Parking accounts error nor the College of Dentistry error were adjusted in the University's financial statements.

Response: Accepted. College of Dentistry administrative staff has added additional review procedures into their year-end closing procedures to assure the receivables and revenues are correctly stated in the financial statements. The Accounting Division will continue to refine closing interactions and communications with units and review their responses to assure the correct entries are recorded.

3. The Chicago Campus should perform reconciliations between the Federal draw-down system (PMS) and University's general ledger system (UFAS) prior to submission of the Federal (PSC 272) report.

Findings: Timely reconciliations were not performed between the federal draw-down system (PMS) and the University's general ledger system (UFAS).

Response: Accepted.

4. Develop oversight procedures to ensure that all Statements of Appointments follow the guidelines that are set out in the Notice of Award.

Findings: Statements of Appointments were not completed properly as required by a federal grant agreement. The Department of Health and Human Services requires the completion of a Statement of Appointment Trainee form for each trainee receiving grant support. The form must be completed and submitted within 30 days of the appointment. In addition, trainee appointments can be made for no more than 12 months nor less than nine months.

The auditors noted two instances of six tested in which the regulations were not complied with. In one instance, the Statement was completed and signed after the appointment period had ended. In the other instance, the period of appointment exceeded the 12-month limitation. Based on the results of the review of the original sample of six appointments, the scope was expanded to include an additional eight appointments.

While coordinating the gathering of the eight additional forms, the University's Principal Investigator discerned that four of the six statements originally provided to the auditors had been only recently prepared for submission in response to the audit request. The investigator informed University officials of the misrepresentation, who in turn notified the audit firm and the Auditor General's Office.

Regarding the additional eight statements that were requested, only three were provided by the University. Of the three provided, one of the forms was signed more than 30 days after the appointment began. Failure to comply with the general requirements of the Notice of Award could jeopardize future funding.

Response: Accepted. An oversight committee has been established within the School of Public Health to examine all administrative requirements under the program to ensure overall compliance and to upgrade internal processes and communication.

5. Update UIC's method of tracking federal cash balances and calculating excess interest earned on federal funds to match the method used by UIUC and maximize the amount of interest that may be retained by the University.

Findings: The calculation of excess interest earned on federal funds for the Chicago campus resulted in more funds being sent back to the Department of Health and Human

Accepted - concluded

Services than was required. The University is required to calculate how much interest it earns on federal grant funds and return any interest earned over $250 per year.

The Chicago campus and the Urbana campus calculate their cash balances in different manners. Based on the Urbana campus' method of calculation, the Chicago campus could have saved approximately $72,000. OMB Circular A-110 guidelines do not specify a specific method of calculation as long as the method used is reasonable.

Response: Accepted. Effective FY04, the calculation methodology for excess interest earned will be consistent across campuses.

6. Implement appropriate procedures to ensure the appropriate clauses and certifications are obtained for all real estate lease agreements. File all real estate leases in excess of $10,000 with the Comptroller's Office as required by State guidelines.

Findings: Real estate leases were not in accordance with guidelines nor were they all filed with the State Comptroller as required by law. The auditors examined 24 real estate leases and noted the following problems:

- 10 leases were not filed with the Office of the Comptroller;
- Three leases for freestanding buildings did not contain an option to purchase the building or documentation that a purchase option was not feasible or in the State's best interest;
- Two leases did not include the Real Estate Ownership Disclosure and the disclosure was not obtained until after the lease term began on seven leases;
- 16 leases did not include the Retention of Records Clause when there was the potential for additional expenses to be billed to the University
- Four leases did not included the FEIN, TIN and Legal Status Disclosure;
- Seven leases included the Interference with Public Contracting Clause; and
- One of the leases entered into after July 1, 2002 did not include the Debt Certification Clause.

Response: Accepted. The University's Real Estate offices will implement enhanced procedures to ensure appropriate and consistent State clauses and certifications are included in all real estate lease agreements. We will continue to take steps to improve staff review of lease agreements to assure documents are completed and in full compliance. We will implement procedures to ensure that all existing real estate leases in excess of $10,000 have been filed with the Comptroller's Office in accordance with State guidelines.

7. Review Hospital processes for calculating and posting contractual allowances and consider implementing specific analysis of large balance accounts, credit

> **balance, discharged not final billed accounts, capitated accounts, and accounts greater than 271 days. In addition, annually update all percentages used in management's calculations. When irregularities are identified, the Hospital should determine if the irregularity was caused by a system limitation or human error. In circumstances where a system limitation is identified, a human process should be put in place to mitigate any potential misstatement of the net realizable value of the patient accounts receivable. It is an important internal control that the human process be documented, reviewed, and the support maintained.**

Findings: The current process used by the Hospital to calculate the post contractual allowances to active patient accounts should be strengthened. The auditor's review indicated the following procedures were not adequately addressed by the Hospital on a monthly basis:

- Specific analysis of large balance accounts--$836,651 account balance from Public Aid had insufficient write-down by approximately $272,000;
- Analysis of credit balances—credit balances totaling $5.2 million of which $2.6 million were greater than 270 days old;
- Analysis of discharged not final billed accounts--$5.2 million of discharged not final billed accounts were greater than 120 days from discharge date;
- Analysis of capitated accounts--$815,000 of capitated accounts with no apparent contractual allowance consideration;
- Analysis of accounts greater than 271 days--$18.2 million of account balances greater than 271 days from discharge date should be reviewed; and
- Annual review and update of percentages used in the allowance calculation.

The procedures listed above are necessary to ensure that all factors that may impact the estimate for contractual allowance are properly considered.

Response: Accepted. Each month the Hospital compares the system generated (detail) contractual adjustments with an overall (high level) estimate of contractual allowances. Where appropriate, adjustments are made to the contractual allowances in the Hospital financial statements to account for contractual allowances not taken by the system. The Hospital is currently implementing a contract management system that will significantly enhance its ability to monitor its many different contracts to ensure appropriate payment and an accurate recording of contractual allowances.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY03 the University of Illinois filed 18 affidavits for emergency procurements totaling $1,236,444.21 including:

- $380,334.94 for repairs at the various campuses;
- $272,892.00 for equipment;
- $208,898.18 for fuel oil;
- $175,865.27 for cattle;
- $70,000.00 for fertilizer;
- $69,993.20 for conference planning and travel; and
- $58,460.62 for lodging for athletes at NCAA tournaments.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission in January and July. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. On July 1, 2003 the University of Illinois indicated that ten employees spent the majority of working time at a location other than official headquarters.